

REPORT ON THE SCHEDULE OF LOANS
RECEIVABLE FROM FEDERAL ENTITIES AND
RELATED INTEREST RECEIVABLE SERVICED
BY THE TREASURY BUREAU OF THE PUBLIC
DEBT AT SEPTEMBER 30, 1999

OIG-00-048

February 14, 2000



Office of Inspector General

United States Department of the Treasury



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

February 14, 2000

MEMORANDUM FOR VAN ZECK, COMMISSIONER
BUREAU OF THE PUBLIC DEBT

FROM: Dennis S. Schindel *Dennis S. Schindel*
Assistant Inspector General for Audit

SUBJECT: Report on the Schedule of Loans Receivable From
Federal Entities and Related Interest Receivable
Serviced by the Treasury Bureau of the Public Debt
at September 30, 1999

I am pleased to transmit the attached Report on the Schedule of Loans Receivable From Federal Entities and Related Interest Receivable Serviced by the Bureau of the Public Debt (BPD) at September 30, 1999 (Schedule of Loans Receivable). We contracted with KPMG LLP, an independent public accountant (IPA), to audit the Schedule of Loans Receivable at September 30, 1999.

The following IPA reports are incorporated in the attached independent auditors' report:

- Opinion on Schedule;
- Report on Internal Controls Over Financial Reporting; and
- Compliance With Laws and Regulations.

The Schedule of Loans Receivable represents an intragovernmental receivable. These receivables arise from certain Federal entities that have been granted specific legislative authority to borrow from the Department of the Treasury. Using the funds borrowed, these entities make loans to various nonfederal borrowers, such as students and farmers. The BPD is responsible for the accounting and servicing of loans made to Federal entities. The audited Schedule of Loans Receivable presents the September 30, 1999, balances of Federal loans receivable and related interest receivable that are serviced by the BPD.

The IPA rendered an unqualified opinion on the Schedule of Loans Receivable at September 30, 1999. The IPA's report on internal controls contained one repeat reportable condition related to the interest recalculation process for Federal Credit Reform Act (FCRA) loans. In addition, the IPA's report on compliance with laws and regulations disclosed no instances of noncompliance.

The IPA issued a management letter dated December 24, 1999, discussing various issues that were identified during the audit, but which are not required to be included in the audit report.

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My staff monitored the conduct of this audit and performed a quality control review of the IPA's working papers. The audit was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

Should you have any questions, please contact me at (202) 927-5400, or a member of your staff may contact William H. Pugh, Deputy Assistant Inspector General for Audit (Financial Management), at (202) 927-5430.

Attachment

U.S. Department of Treasury

Bureau of the Public Debt

Schedule of Loans Receivable

From Federal Entities and Related Interest Receivable

Serviced by the Bureau of the Public Debt

September 30, 1999



2001 M Street, N.W.
Washington, D.C. 20036

Independent Auditors' Report

The Inspector General,
United States Department of the Treasury and
The Commissioner of the Bureau of the Public Debt:

We have audited the accompanying Schedule of Loans Receivable From Federal Entities and Related Interest Receivable serviced by the Bureau of the Public Debt (BPD) at September 30, 1999 (the Schedule). In our opinion the Schedule is presented fairly, in all material respects, in conformity with generally accepted accounting principles.

In connection with our audit, and in accordance with *Government Auditing Standards*, we also considered BPD's internal controls over financial reporting related to the Schedule, and tested BPD's compliance with certain provisions of applicable laws and regulations related to the Schedule.

We noted a repeat reportable condition, which we do not consider to be a material weakness. As discussed in Exhibit I, we noted that BPD should continue to improve its interest recalculation process for Federal Credit Reform Act (FCRA) loans.

The results of our audit of the Schedule, our consideration of BPD's internal controls over financial reporting related to the Schedule, and our tests of BPD's compliance with laws and regulations are discussed in the remainder of this report.

Opinion on Schedule

We have audited the accompanying Schedule of Loans Receivable from Federal Entities and Related Interest Receivable serviced by the Bureau of the Public Debt at September 30, 1999. The Schedule is the responsibility of BPD's management. Our responsibility is to express an opinion on this Schedule based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and applicable provisions of Office of Management and Budget (OMB) Bulletin No. 98-08, as amended *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Schedule is free of material



misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the loans receivable from Federal entities and related interest receivable serviced by the Bureau of the Public Debt at September 30, 1999, in conformity with generally accepted accounting principles.

Report on Internal Controls over Financial Reporting

BPD's management is responsible for establishing and maintaining internal controls over financial reporting related to the Schedule. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal controls over financial reporting are to provide management with reasonable, but not absolute, assurance that (1) transactions are executed in accordance with laws and regulations that could have a direct and material effect on the determination of the Schedule amounts, and certain other laws and regulations specified in OMB Bulletin No. 98-08, as amended; (2) assets are safeguarded against loss from unauthorized acquisition, use, or disposition; and (3) transactions are properly recorded, processed, and summarized to permit the preparation of the Schedule in accordance with generally accepted accounting principles.

Because of inherent limitations in internal controls, misstatements, losses or noncompliance may nevertheless occur and not be detected. Also, projection of an evaluation of internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit, we considered BPD's internal control over financial reporting by obtaining an understanding of the BPD's significant internal controls related to the Schedule, determined whether these internal controls have been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 98-08, as amended. We did not test all internal controls relevant to objectives broadly defined by the Federal Manager's Financial Integrity Act of 1982, such as those controls relevant to ensuring efficient operations. The objective of our audit was not to provide assurance on internal control. Consequently, we do not provide an opinion on internal controls.

Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions under standards issued by the American Institute of Certified Public Accountants and OMB Bulletin No. 98-08, as amended and, accordingly, would not necessarily disclose all reportable conditions that are material weaknesses. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect BPD's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Schedule.

Material weaknesses are reportable conditions in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the Schedule being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We noted a repeat reportable condition, which we do not consider to be a material weakness. This reportable condition is discussed in Exhibit I.

We also noted a matter involving internal control over financial reporting and BPD's operations relating to the Schedule that we have reported to BPD in a separate letter, dated December 30, 1999.

Compliance with Laws and Regulations

The management of BPD is responsible for complying with laws and regulations applicable to the Schedule. As part of obtaining reasonable assurance about whether the information included in the Schedule referred to above was free of material misstatement, we performed tests of BPD's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of amounts reflected in the Schedule, and certain other laws and regulations specified in OMB Bulletin No. 98-08, as amended. We limited our tests of compliance to these provisions and we did not test compliance with all laws and regulations applicable to the Schedule. However, providing an opinion on compliance with applicable provisions of laws and regulations was not an objective of our audit, and, accordingly, we do not express such an opinion.

The results of our tests of compliance with laws and regulations described in the preceding paragraph, disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 98-08, as amended.

Federal Financial Management Improvement Act of 1996 (FFMIA) Per discussions with the Office of Management and Budget, the preparation of the Schedule referred to above, is not subject to the requirements of FFMIA and, accordingly, our test work did not encompass the FFMIA requirements.

Distribution

This report is intended solely for the information and use of the U.S. General Accounting Office, the Office of Inspector General of the U.S. Department of the Treasury, the Commissioner and management of the Bureau of the Public Debt, and Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

December 30, 1999

**Schedule of Loans Receivable from Federal Entities and Related Interest Receivable
Serviced by the Bureau of the Public Debt**

Repeat Reportable Condition

September 30, 1999

Interest Verification

Reportable Condition

During the year ended September 30, 1998 we noted that BPD did not initially reconcile interest recorded by Financial Management Services (FMS) to interest recorded in BPD's accounting records. However, during the year ended September 30, 1999 we noted that BPD implemented a monthly reconciliation process to reconcile interest recorded by Financial Management Services (FMS) to interest recorded in BPD's accounting records.

In accordance with the Federal Credit Reform Act (FCRA) loan agreements between the Secretary of the Treasury and the federal entities, the federal entities are responsible for calculating interest on the FCRA loans and the Bureau of the Public Debt (BPD) records interest based on these calculations.

During the year ended September 30, 1998, BPD started a process to recalculate the FCRA interest amounts determined by the federal entities. During the year ended September 30, 1999, BPD improved the recalculation process by attending training, creating a template to recalculate the interest, and significantly increasing the number of interest recalculations.

BPD calculates interest for all non-FCRA loans, except for the Federal Financing Bank (FFB) loans. FFB is responsible for calculating the interest because BPD does not have access to all the necessary information. BPD is in the process of obtaining the information necessary to recalculate the FFB loans.

Since BPD has not completed the interest recalculation process for all of the loans, BPD is relying on certain federal entities to properly calculate the interest amounts. As a result, interest calculations prepared by federal entities and recorded by BPD may not be accurate.

Recommendation

We recommend that BPD complete the interest recalculation process for all FCRA loans. We also recommend that BPD continue working with FFB to obtain the information to recalculate interest for the FFB loans.

Schedule of Loans Receivable
From Federal Entities and Related Interest Receivable
Serviced by the Bureau of the Public Debt
At September 30, 1999
(Dollars in Millions)

Loans Receivable from Federal Entities	\$180,860
Interest Receivable from Federal Entities	\$4,094

The accompanying notes are an integral part of this schedule.

Notes to the Schedule of Loans Receivable
From Federal Entities and Related Interest Receivable
Serviced by the Bureau of the Public Debt
At September 30, 1999

Note 1. Significant Accounting Policies

Basis of Presentation

The Schedule has been prepared to report the balance outstanding at September 30, 1999, of amounts loaned by the Department of Treasury to federal entities and the related interest receivable. The Schedule has been prepared in accordance with the applicable provisions of the Office of Management and Budget's (OMB) Bulletin 97-01, *Form and Content of Agency Financial Statements*.

Reporting Entity

Loans and interest receivable from federal entities represent intragovernmental receivables. These receivables arise from certain federal entities who have been granted specific legislative authority to borrow from Treasury. Using the funds borrowed, these entities make loans to nonfederal borrowers, such as students and farmers.

Basis of Accounting

The Schedule was prepared in accordance with generally accepted accounting principles applicable to federal entities. The amounts included in the accompanying schedule are presented on the accrual basis.

Loans Receivable Writeoffs / Forgiveness

When a federal entity borrows from Treasury, Treasury records an intragovernmental receivable and the entity records an intragovernmental payable. In some cases, the federal entities are unable to fully repay such loans. When this occurs, the prevalent practice is for the federal entity to obtain Congressional approval to forgive the debt. If the debt is forgiven, Treasury's intragovernmental receivable is written down, as well as the federal entity's intragovernmental payable. Since agencies have permanent indefinite budget authority, an allowance for uncollectible loans and interest receivable is unnecessary.

Note 2. Loans Receivable from Federal Entities

At September 30, 1999, loans receivable from various federal entities related to the following programs and funds (dollars in millions):

<u>Agency/Entity</u>	<u>Program/Fund</u>	<u>Balance</u>
Education:	Federal direct student loan program	\$52,070
Agriculture:	Farm Service Agency:	
	Commodity Credit Corporation	\$29,563
Treasury:	Federal Financing Bank revolving fund	\$28,115
Agriculture:	Rural Utilities Service:	
	Rural electrification and telecommunications fund	\$ 9,585
Small Business Administration:	Disaster loan fund	\$ 9,404
Housing & Urban Development:	Federal Housing Administration	\$ 7,996
Agriculture:	Rural Housing Service:	
	Rural housing insurance fund	\$ 7,802
Export Import Bank:	Export Import Service:	
	Export Import Bank	\$6,603
Other:	Other programs and funds	\$29,722
Total loans receivable from federal entities		<u>\$180,860</u>

Note 3. Interest Revenue

During the year ended September 30, 1999, interest earned on loans from federal entities totaled \$11,347 million.